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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF CALIFORNIA

DIGITAL SOFTWARE SERVICES,
INC.,

No. 2:09-cv-02763-MCE-DAD

Plaintiff,

v.

MEMORANDUM AND ORDER

ENTERTAINMENT PROGRAMS, INC.,
a California Corporation;
JOSEPH A. PERSHES,
individually and as owner of
ENTERTAINMENT PROGRAMS, INC.;
KOCH ENTERTAINMENT
DISTRIBUTION; LLC, a Delaware
limited liability company;
INGRAM ENTERTAINMENT, INC., a
Tennessee corporation; CD
VIDEO MANUFACTURING, INC. A
California corporations; and
L&M OPTICAL DISC WEST, LLC, a
California limited liability
company,

Defendants.

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1 Defendants Entertainment Programs, Inc., Joseph A. Pershes,
2 and Koch Entertainment Distribution, LLC (collectively
3 "Defendants") petition this Court to compel arbitration and move
4 to stay proceedings pending arbitration.¹ For the reasons set
5 forth below, Defendants' Petition will be granted and the instant
6 action will be stayed.

7
8 **BACKGROUND²**
9

10 In the early 1990s, Teleteam, Inc. produced a series of ten
11 aviation-themed videos about World War II era warplanes titled
12 "Roaring Glory." Teleteam entered into an exclusive worldwide
13 marketing and distribution agreement with Program Power
14 Entertainment, Inc. ("Program Power") in which Program Power
15 obtained exclusive control over the rights of the videos. In
16 2002, Program Power entered into a distribution agreement
17 ("Distribution Agreement" or "Agreement") with Defendant Joseph
18 Pershes' company, Defendant Entertainment Programs, Inc. ("EPI").
19 Under the Agreement, EPI became the exclusive distributors in the
20 United States and Canada of the Roaring Glory videos. However,
21 the contract did not grant EPI the right to copy or replicate the
22 videos and Program Power retained the right to sell the videos.

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25 ¹ Because oral argument will not be of material assistance,
26 the Court orders this matter was deemed suitable for decision
without oral argument. Local Rule 230(g).

27 ² The factual assertions in this section are based on the
28 allegations in Plaintiff's First Amended Complaint unless
otherwise specified.

1 In late 2003, Program Power assigned the copyrights of the
2 Roaring Glory videos to Plaintiff Digital Software Services, Inc.
3 ("DSS" or "Plaintiff"). Pursuant to that assignment, Plaintiff
4 owns all rights and controls the distribution of the videos
5 through either self-marketing or by way of tightly controlled
6 distribution agreements, like the agreement with Defendant EPI.

7 Plaintiff alleges that Pershes and EPI failed to pay the
8 required royalties for sale of the videos. As a result, on
9 January 7, 2004, Program Power terminated the distribution
10 agreement with EPI.

11 Plaintiff further alleges that Pershes did not stop
12 distributing the videos after the Agreement was terminated.
13 Plaintiff believes that Pershes contracted with Defendant Koch
14 Entertainment, Inc. ("Koch"), Defendant CD Video Manufacturing,
15 Inc. ("CD Video"), and L & M Optical Disc West ("L&M West") to
16 replicate and sell counterfeit Roaring Glory videos.

17 On October 5, 2009, Plaintiff brought suit against
18 Defendants alleging copyright infringement, trafficking in
19 counterfeit labels, trademark infringement, civil RICO, and
20 conspiracy to violate RICO. Defendants seek to enforce the
21 Distribution Agreement's arbitration clause which broadly
22 provides that "[a]ny and all disputes arising in connection with
23 this agreement shall be resolved by binding arbitration, pursuant
24 to the California Arbitration Law." Distribution Agreement,
25 Ex. B to the Decl. Of Joseph A. Pershes, Section 14.01.

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1 Baker v. Osborne Development Corp., 159 Cal. App. 4th 884, 893
2 (Ct. App. 2008). California law also reflects a "strong public
3 policy in favor of arbitration as a speedy and relatively
4 inexpensive means of dispute resolution. Moncharsh v. Heily &
5 Blase, 3 Cal. 4th 1, 9 (1992).

6 "On petition of a party to an arbitration agreement...the
7 court shall order the [parties] to arbitrate the controversy if
8 it determines that an agreement to arbitrate the controversy
9 exists." Cal. Civ. Proc. Code § 1281.2. The right to
10 arbitration depends on the existence of an agreement to
11 arbitrate, and a party cannot be forced to arbitrate in the
12 absence of such an agreement. Fredrick v. First Union Secs.,
13 Inc., 100 Cal. App. 4th 694, 697 (Ct. App. 2002). "The strong
14 public policy in favor of arbitration does not extend to those
15 who are not parties to an arbitration agreement, and a party
16 cannot be compelled to arbitrate a dispute that he has not agreed
17 to resolve by arbitration." Lee v. S. Cal. Univ. For Prof'l
18 Studies, 148 Cal. App. 4th 782, 786 (Ct. App. 2007). "Very
19 limited circumstances exist under which a nonparty to an
20 arbitration agreement can be bound by someone else's consent..."
21 Id.

22 Because § 1281.2 requires an agreement to arbitrate as a
23 prerequisite to granting the petition, the petitioner bears the
24 burden of proving the existence of a valid agreement by a
25 preponderance of the evidence. Rosenthal v. Great W. Fin. Secs.
26 Corp., 14 Cal. 4th 394, 413 (Cal. 1996).

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1 If the party opposing raises a defense to enforcement, that party
2 bears the burden of producing evidence of the defense and proving
3 any necessary facts by a preponderance of the evidence. Id.
4

5 **ANALYSIS**

6 **A. The Claims in Plaintiff's Complaint Arise in Connection**
7 **With the Agreements.**

8 While both the FAA and California law express a strong
9 public policy in favor of enforcing arbitration, that policy is
10 not triggered unless an enforceable agreement is established,
11 Baker v. Osborne Development Corp., 159 Cal. App. 4th 884, 892
12 (Ct. App. 2008), since the right to arbitrate depends upon
13 contract. Romo v. Y-3 Holdings, Inc., 87 Cal. App. 4th 1153,
14 1158 (Ct. App. 2001). When presented with a petition to compel
15 arbitration, then, this Court's first task is to determine
16 whether the parties have in fact agreed to arbitrate the dispute.
17 Id.

18 Plaintiff argues that this dispute is not amenable to
19 arbitration because the claims do not arise in connection with
20 the distribution or security agreement. Specifically, Plaintiff
21 states that "the distribution agreement does not give EPI the
22 right to do anything it has admitted doing." Pl.'s Opp. to
23 Defs.' Pet. to Compel Arb. & Mot. to Stay Proc. 8:11. Plaintiff
24 further maintains that "the security agreement does not give EPI
25 the right to steal the Roaring Glory videos or compel
26 arbitration." Id. at 11:4.

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1 Plaintiff does not dispute that it is subject to the agreements
2 entered into by Program Power as Program Power's successor in
3 interest, even though Plaintiff did not itself enter into the
4 agreements.

5 "When the parties to an arbitrable controversy have agreed
6 in writing to arbitrate it and one has refused, the court, under
7 Section 1281.2, must ordinarily grant a petition to compel
8 arbitration." Wagner Const. Co. v. Pacific Mechanical Corp., 41
9 Cal. 4th 19, 26 (Cal. 2007). As stated supra, a "heavy
10 presumption weighs in favor of arbitrability; and order directing
11 arbitration should be granted unless it may be said with positive
12 assurance that the arbitration clause is not susceptible of an
13 interpretation that covers the asserted dispute. Doubts should
14 be resolved in favor of coverage." O'Malley v. Wilshire Oil Co.,
15 59 Cal. 2d 482, 491 (Cal. 1963) (internal citation omitted).
16 Moreover, when parties include a broad arbitration provision,
17 "every dispute between the parties having a significant
18 relationship to the contract and all disputes having their origin
19 or genesis in the contract" should be sent to arbitration. RN
20 Solution, Inc. v. Catholic Healthcare West, 165 Cal. App. 4th
21 1511, 1522 (Ct. App. 2008). "[W]hen the...agreement contains a
22 broad arbitration clause, the question[s] of whether [and how] a
23 particular act or failure to act effectively serves to terminate
24 the agreement is to be resolved by the arbitrator." Northern
25 California Newspaper Guild Local 52 v. Sacramento Union, 856 F.2d
26 1381, 183 (9th Cir. 1988).

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1 Under this standard, the dispute between Plaintiff and
2 Defendants is arbitrable. The parties' primary dispute stems
3 from Defendants' distribution of the Roaring Glory videos both
4 under the Agreement and once Defendants allegedly lost their
5 right to distribute. Plaintiff alleges that Defendant breached
6 the Distribution Agreement and subsequently continued to make and
7 sell the videos even after their right to distribute was
8 terminated. The determination of these claims falls within the
9 scope of the broad arbitration agreement to which both parties
10 consented.

11 With respect to the Distribution Agreement, Plaintiff
12 asserts that Program Power only agreed to arbitrate claims
13 "arising from the Distribution Agreement..., [and] never agreed
14 to arbitrate claims arising from EPI's intentional, criminal acts
15 or counterfeiting and piracy arising after termination of the
16 Distribution Agreement." Pl.'s Opp. to Defs.' Pet. to Compel
17 Arb. & Mot. to Stay Proc. 10:22-25. While Plaintiff invites the
18 Court to analyze the material issues involved in this case in
19 determining whether arbitration is appropriate, such an analysis
20 is in fact inappropriate. "An order to arbitrate such
21 controversy may not be refused on the ground that petitioner's
22 contentions lack substantive merit." Cal. Civ. Code § 1281.2.
23 "In deciding whether the parties have agreed to submit a
24 particular grievance to arbitration, a court is not to rule on
25 the potential merits of the underlying claim." AT&T Techs., 475
26 U.S. at 649.

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1 Therefore, this Court will not decide whether Defendants have the
2 right to distribute videos after the contract terminated or
3 whether the videos were stolen. These disputes arise from the
4 Distribution Agreement and, as such, should be referred to
5 arbitration.

6 Plaintiff also asserts that the Security Agreement could
7 not, by its terms, have been breached until October 1, 2005.
8 Since EPI allegedly began copying and selling videos in 2004,
9 Plaintiff argues that the Security Agreement is not applicable.
10 The Distribution Agreement, however, incorporates the Security
11 Agreement by reference. "An agreement need not expressly provide
12 for arbitration, but may do so in a secondary document which is
13 incorporated by reference." Baker, 159 Cal. App. 4th at 895.
14 The Security Agreement was made "in accordance with the
15 provisions of the certain USA and Canada Distribution Agreement
16 between Borrower and Lender dated September 30, 2002." Security
17 and Financing Agreement, Ex. A to Pershes Decl., ¶ 1. Therefore,
18 although the Security Agreement itself does not have an
19 arbitration clause, it refers to the Distribution Agreement and
20 under that Agreement, the parties consented to arbitration.

21 Under either the Distribution Agreement or the Security
22 Agreement, then, arbitration of dispute between Plaintiff and EPI
23 is indicated.

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1 **B. Granting the Petition to Compel Arbitration Will Aid**
2 **the Pending Litigation Against All Defendants and Will**
3 **Not Result in Conflicting Rulings.**

4 Plaintiff also alleges that this matter should not be
5 ordered to arbitration because at least five of the Defendants
6 did not sign the agreement containing the arbitration clause.
7 Plaintiff argues that "granting the motion and compelling
8 arbitration would add the potential for conflicting rulings even
9 as to EPI's liability, not just as compared to the other
10 defendants." Pl.'s Opp. to Defs.' Pet. to Compel Arb. & Mot. to
11 Stay Proc. 8:4-6. According to Plaintiff "[t]he general right to
12 contractual arbitration...may have to yield if there is an issue
13 of law or fact common to the arbitration and a pending action or
14 proceeding with a third party and there is a possibility of
15 conflicting rulings thereon." Pilimai v. Farmers Ins. Exchange
16 Co., 39 Cal. 4th 133, 141 (Cal. 2006) (quoting Mercury Ins. Group
17 v. Super. Ct., 19 Cal. 4th 332, 347-48 (Cal. 1960)).

18 Under California law, however, if the Court determines that
19 a party to the arbitration is also a part to the litigation in a
20 pending action the court is authorized to: 1) refuse to enforce
21 the arbitration agreement; 2) order intervention or joinder;
22 3) order arbitration among the parties who have agreed to
23 arbitration and stay the pending court action; or 4) stay
24 arbitration pending the outcome of the court action. Cal. Code.
25 Civ. Proc. § 1281.2(c). This section "is not a provision
26 designed to limit the rights of parties who choose to arbitrate
27 or otherwise to discourage the use of arbitration."

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1 Mount Diablo Medical Center v. Health Net of California, Inc.,
2 101 Cal. App. 4th 711, 726 (Ct. App. 2002)). Instead, as the
3 court explains in Cronus Investments, Inc. v. Concierge Servs.,
4 35 Cal. 4th 376, 2005),

5 "it is part of California's statutory scheme designed
6 to enforce the parties' arbitration agreements, as the
7 FAA requires... The California provision giving the
8 court discretion not to enforce the arbitration
9 agreement under such circumstances - in order to avoid
10 potential inconsistency in outcome as well as
11 duplication of effort - does not contravene the letter
12 or the spirit of the FAA."

13 Id. at 393 (quoting Mount Diablo Medical Center, supra, 101 Cal.
14 App. 4th at 726).

15 Here, enforcing the arbitration agreement and staying the
16 court proceeding will not result in any inconsistency. In fact,
17 arbitration may clarify and streamline this case. Although five
18 Defendants are not parties to the arbitration agreement, sending
19 this case to arbitration may clarify whether the other Defendants
20 are even liable. Further, none of the other Defendants have
21 opposed the Defendants' Petition to Compel Arbitration and one
22 has expressly filed a statement of non-opposition with respect to
23 the entire matter being stayed pending arbitration. See Moving
24 Defs.' Reply at 9:18-19; see also Def. Ingram Entertainment's
25 Resp. to Defs' Pet. to Compel Arb. & Mot. to Stay Proc. In
26 addition, all Defendants agree that if arbitration is mandated by
27 the Court, Moving Defendants' stay request should likewise be
28 granted. Id. at 9:20-21.

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1 **C. The Petition to Compel Arbitration is Not Time Barred.**

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3 Plaintiff further asserts that EPI "could have brought a
4 claim in arbitration...[but] EPI did not bring such a claim, and
5 now, six years later, any such claim would be time barred."
6 Pl.'s Opp. to Defs.' Pet. to Compel Arb. & Mot. to Stay Proc.
7 9:23-26.

8 "[A] court may not deny a petition to compel arbitration on
9 the ground that the statute of limitations has run on the claims
10 the parties have agreed to arbitrate." Wagner, 41 Cal. 4th at
11 26. Although, "[d]elay in demanding or seeking to compel
12 arbitration...can justify denying a motion to compel,... the
13 rules that enforce the requirements of timely demands and
14 petitions have nothing to do with the statute of limitation that
15 create affirmative defenses to the claims the parties have agreed
16 to arbitrate." Id. at 29. Here, nothing in the record indicates
17 that Defendants' delay in seeking arbitration justifies denial of
18 their petition to compel. Indeed, Defendants' decision to seek
19 arbitration once court proceedings had been instituted against
20 them appears reasonable. Further, the Distribution Agreement's
21 broad arbitration clause, which expressly extends to "[a]ny and
22 all disputes arising in connection with this agreement"
23 demonstrates that both procedural questions of timing and
24 substantive issues on the merits should be resolved through
25 arbitration.

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1 See id. at 26 (“the assertion that the statute of limitations has
2 run is an affirmative defense that falls naturally within the
3 plain language of the parties’ broad agreement to submit to
4 arbitration ‘any dispute aris[ing] out of’ their contract”).
5 Even in the face of less than clear language, doubts concerning
6 the scope of arbitrable issues should still be resolved in favor
7 of arbitration. Id. Therefore, although Defendants may have
8 been able to compel arbitration when Program Power terminated the
9 contract, Defendants’ petition to compel presently before the
10 Court is not time barred as it falls within the broad provision
11 mandating arbitration.
12

13 **CONCLUSION**
14

15 For the reasons set forth above, Defendants’ Petition to
16 Compel Arbitration (Docket No. 32) is GRANTED. Given that order
17 to arbitrate, Defendants’ concurrently filed Motion to Stay
18 Proceedings Pending Arbitration (Docket No. 32) is also GRANTED.
19 Finally, Defendant Ingram Entertainment’s Motion to Dismiss
20 (Docket No. 27) is DENIED as moot given the Court’s decision to
21 stay this action in its entirety pending arbitration between
22 Plaintiff and EPI.

23 IT IS SO ORDERED.

24 Dated: February 25, 2010
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27 MORRISON C. ENGLAND, JR.
28 UNITED STATES DISTRICT JUDGE